

Covid-19: the impact on healthcare expenditure

A report by The Economist Intelligence Unit



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Covid-19: the impact on healthcare expenditure

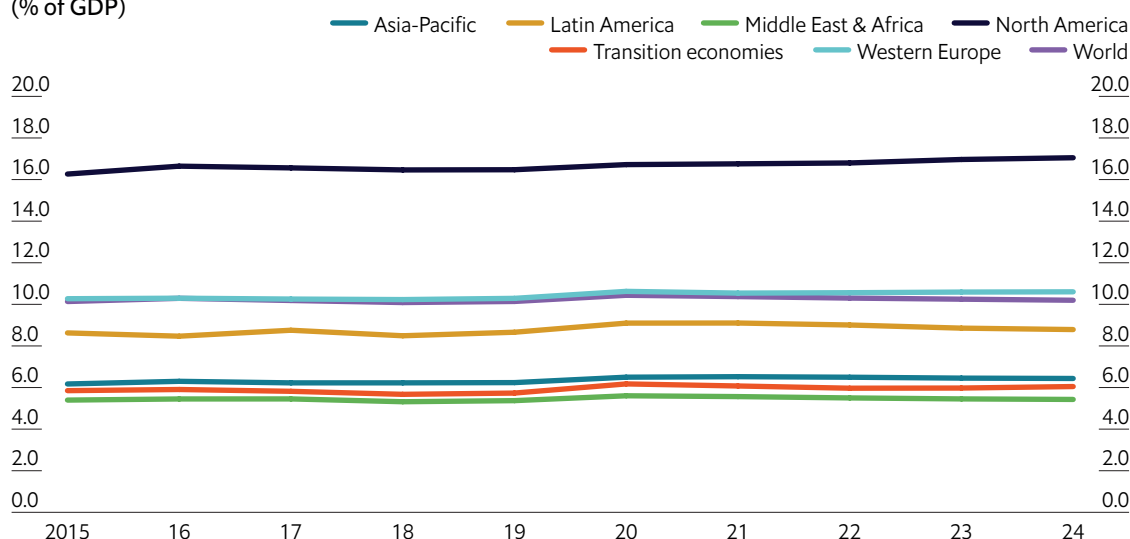
Counterintuitively, spending on healthcare has been falling in some countries during the coronavirus pandemic. We expect a recovery to begin in late 2020 and to gather pace in 2021.

- Healthcare spending across the world's 60 biggest economies will fall by 1.1% in US-dollar terms in 2020. This will partly reflect the strengthening of the dollar.
- The battle against the novel coronavirus (Covid-19) has led to a sharp drop in spending on other conditions, with non-urgent care cancelled and patients avoiding hospitals and clinics. However, we expect spending on non-coronavirus care to recover later in the year.
- The recovery will continue in 2021, when healthcare spending will rise by 5.5% in dollar terms. Effective vaccines and treatments for coronavirus are likely to become available during the year, necessitating additional expenditure.

In most recessions, healthcare is one of the most resilient sectors. The Economist Intelligence Unit calculates that in 2009, amid the global financial crisis, healthcare spending in the world's 60 biggest economies rose by 2.8% in US-dollar terms. This was a sharp slowdown from the growth seen before the crisis, but also a sharp contrast to the 1.8% decline in real GDP. However, we expect this year's recession to be different. While we forecast that the global economy will contract sharply in 2020, we expect healthcare spending to fall by 1.1% in dollar terms.

Healthcare spending by region

(% of GDP)



Source: The Economist Intelligence Unit.

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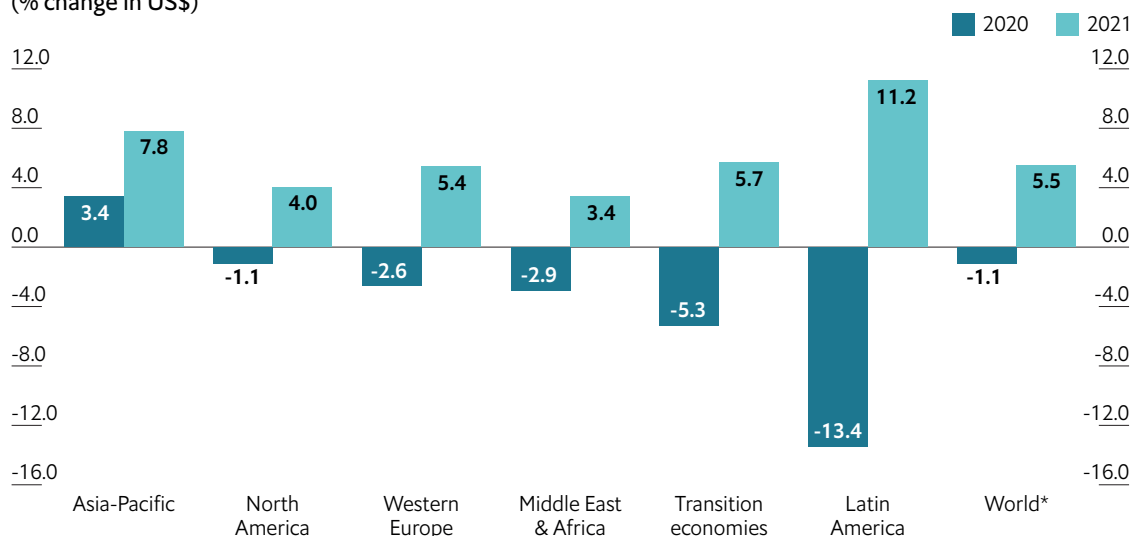
This forecast seems counterintuitive, given that this year's economic downturn has been caused by a healthcare emergency, the coronavirus pandemic. However, while governments and healthcare managers have poured resources and funding into combatting the virus, in many cases they have also cancelled or reduced non-urgent care for other conditions. Patients, meanwhile, are reluctant to go to hospitals or clinics, either because they fear contracting coronavirus, or because they worry about placing an additional burden on healthcare workers. Many hospitals, emergency department and doctors' clinics report far fewer patients than normal, while visits to dentists are near-impossible in countries experiencing lockdowns.

The effects on the finances and employment of companies in the sector have been stark, particularly in countries with a large share of private healthcare. In the first quarter of 2020 US GDP contracted by 4.8%, a recession driven in part by an 18% year-on-year fall in healthcare spending. By April, the impact was being felt in the jobs markets, with employment in the healthcare sector falling by 1.4m during the month, according to the US Bureau of Labor Statistics. This pattern was mirrored in China, where consumer expenditure on healthcare consumption in the first quarter of 2020 declined by 10.2% year on year, faster than the overall 9.2% drop in consumer spending.

In countries dominated by public healthcare funding, the decline in healthcare usage has not yet caused many job losses but has shown up in spare capacity—which has been broadly welcomed, given earlier fears that healthcare systems would be overwhelmed by coronavirus patients. In Germany, the spare capacity in the country's generously equipped hospital system, combined with widespread testing and tracking, has arguably helped the country to keep the number of coronavirus-related deaths far lower than in neighbouring countries—although it has also reignited the debate about whether the country has too many hospitals.

Healthcare spending in 2020-21

(% change in US\$)



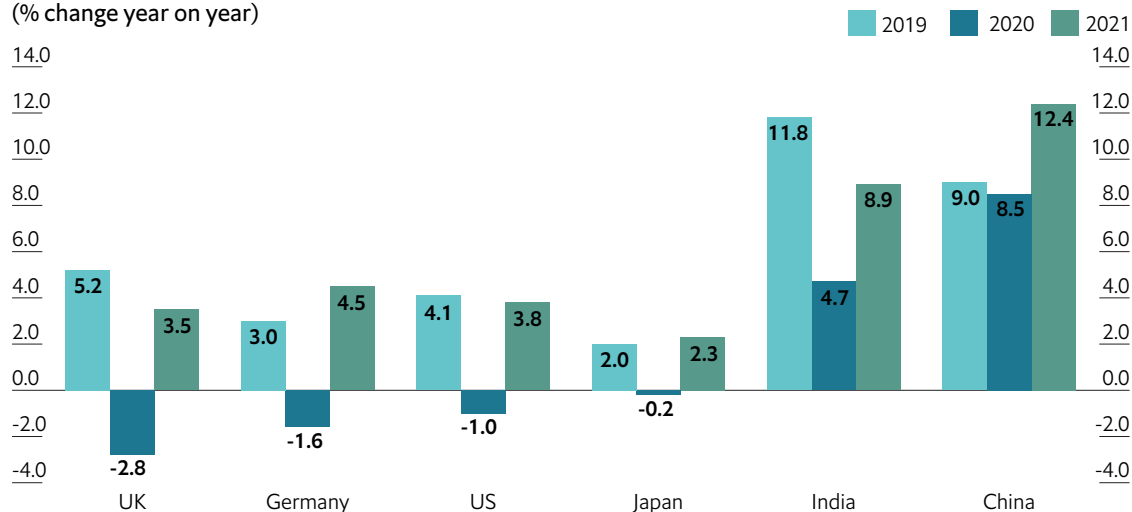
*60 biggest economies only.

Source: The Economist Intelligence Unit.

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Healthcare spending in local-currency terms

(% change year on year)



*60 biggest economies only.

Source: The Economist Intelligence Unit.

Meanwhile, German federal government spending on health, environment, sport and recreation reached €1.1bn (US\$1.2bn) in the first quarter of the year, up from €533m (US\$600m) a year earlier, with nearly all of that increase likely to have been come via health spending in March. While spending on non-coronavirus care has fallen, the pandemic itself—and the associated testing and treatment—is likely to prove expensive. An emergency budget, passed in late March, increased the funds available to the country's Ministry of Health by more than €3bn, or 20%, this year, in part to help the country double the number of intensive care beds to over 50,000.

Impact on our forecasts

Given these contrasting dynamics, as well as the uncertainties thrown up by the Covid-19 pandemic, forecasting this year's healthcare expenditure is difficult. In most countries we have assumed that some of the non-coronavirus care will have been delayed, rather than foregone. In China, where the pandemic is largely under control, we expect consumer expenditure on health to recover gradually in Q2, before normalising in Q3 and accelerating slightly in Q4, which will help to offset the contraction in Q1. In the US and in much of Europe, the recovery in private spending is likely to be delayed until Q3.

Over 2020 as a whole we expect healthcare spending to decline only slightly in nominal local-currency terms in most developed countries. In the US, for example, health spending will fall by just 1% year on year in 2020 (see chart). Given that we are expecting GDP to contract in most G20 markets, healthcare spending as a share of GDP will rise sharply. However, there are two G20 markets where GDP will continue to rise: China and Indonesia. In these countries, we expect healthcare spending to continue rising, too, albeit at slower rates than in 2019.

At a global level, we expect healthcare spending to rise to 10.4% of GDP, up from 10.1% of GDP in 2019. This share will vary from 16.7% of GDP in North America to just 5.6% of GDP in the Middle East and Africa. Translated into US-dollar terms, however, the picture for healthcare spending is somewhat different. The dollar is set to strengthen this year as investors search for safe havens. This will reduce

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the apparent health spending growth in Asia and lead to a spending slump in dollar terms in Latin America, where currencies are particularly vulnerable.

Looking further ahead, however, we expect delays in treatment to result in a surge in healthcare spending. In the UK, for example, Medefor, a provider of virtual healthcare to National Health Service (NHS) patients, forecasts that the waiting list for NHS treatment will swell from a record 4.4m people in February 2020 to 7.2m by the end of September. Even more worryingly, research from University College London and Data-Can, a cancer data hub, suggests that delays in treatment and diagnosis of cancer could lead to almost 18,000 extra cancer deaths.

Combined with an economic recovery and, importantly, the base effect from this year's slump, this will lead to a sharp recovery in healthcare spending in most countries. If current research efforts go well, many countries will also need to spend heavily on the promised new treatments and vaccines for coronavirus as they seek a more permanent exit from quarantine. Meanwhile, the pandemic will have highlighted gaps in healthcare systems that governments will be under pressure to fill.

In China, for example, healthcare is likely to feature even more heavily in the 14th Five Year Plan (covering 2021-25) than it did in the 13th. In the US, meanwhile, healthcare reform was already a major issue in the run-up to the November 2020 presidential election, and the Covid-19 pandemic has added to the pressure. While some hardline Republicans remain eager to abolish what remains of the Affordable Care Act (known as Obamacare), liberal Democrats are urging massive expansion of government funding of healthcare. Even the incumbent, Donald Trump, is vulnerable to public concern.

This pressure, combined with likely consolidation in the healthcare sector amid this year's crunch, is likely to drive US healthcare spending sharply upwards in 2021. Combined with a currency recovery in other regions, this will spur growth at a global level. Across the 60 countries covered by this forecast, we expect total healthcare spending to rise by 5.5% in US-dollar terms in 2021, similar to 2018's rate but faster than in any other year since the global financial crisis.

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